Medicaid Backgrounder

- Your budget presentation to the Legislature for FY 08 recommended using $45 million of federal Katrina funds and $45 million from an adjusted GRA to fill the $90 million hole. Here's the language from the budget narrative:

"6. Protects access to health care by providing a rainy day fund for Medicaid while transitioning to a new hospital financing system.

"The Bush Administration recently awarded an additional $149 million of Medicaid funds to the State of Mississippi. This is in addition to the $368 million we received last spring. I recommend the Division of Medicaid's budget not be reduced to compensate for this additional federal money as it was in Fiscal Year 07. This additional federal money provides an opportunity to ease the burden on state taxpayers as we transition into a new system of financing the Medicaid hospital program, as required by the federal government. I recommend $45 million of these funds be used in Fiscal Year 07 to replace half of the $90 million which had previously been supplied by public hospitals each year. Another $45 million should be used in Fiscal Year 08. Both public and private hospitals will contribute the remaining $45 million each year via the adjusted gross revenue assessment, which is 50% of what the public hospitals alone have contributed in past years through the Disproportionate Share Hospital (DSH) intergovernmental transfer.

"Using $90 million of the $149 million in this fashion will leave $59 million in Medicaid's coffers to be used as a rainy day fund to protect against the possibility of a harsh budget impact if additional federal reimbursement changes materialize and to improve the provider reimbursement systems by having enhanced cash flow capabilities."

- On two occasions the House has passed bills linking increased cigarette taxes to Medicaid funding.

The first was in the 2005 Regular Session when the House passed a bill increasing cigarette taxes to pay for reinstituting PLADS. The second was HB 1013 in the 2008 Regular Session to increase cigarette taxes to fund Medicaid.

Medicaid Timeline

1980s - States began funding Medicaid through revenue assessments

1993 – At MHA's request, the Legislature established the DSH-IGT funding method and began to finance a large portion of the direct payments to hospitals by requiring public hospitals (but not private hospitals) to transfer 72% of DSH funds directly to Medicaid prior to receiving DSH payments.

2001 - During the regular legislative session, MHA and its member hospitals lobbied the Legislature to create the Upper Payment Limit (UPL) Program for hospitals. Because Mississippi did not have sufficient general funds to put up the state's portion of the UPL payments, MHA suggested, and the Legislature enacted, a gross revenue assessment (GRA) on hospitals.

2002 to 2004 - MHA received payments of over $11 million from Medicaid to administer the revenue assessment program as MHA was named in the statute as the only entity with whom DOM could contract to administer the assessment and DSH/UPL calculations.

2002 - CMS begins to investigate whether the contract between MHA and DOM was a proper expense given its proposed $5 million yearly payment. CMS later determined that the allowable cost associated with this contract for federal reimbursement purposes was significantly less than $5 million.

DSH Program from the MHA

Through the Disproportionate Share Program, hospitals funded $350 million of the Medicaid budget in FYE 2002. Federal statute requires that states consider the special payment needs for hospitals that serve a disproportionate number of uninsured patients when determining payment rates for hospital care. The federal government provides matching funds for state Medicaid expenditures that are to be used in meeting this directive.

The DSH program brought approximately $520 million into the state during fiscal 2002. The state's government-owned hospitals paid $120 million to attract $400 million in federal matching funds. Of the $520 million brought into the state, $170 million was returned directly to the hospitals with $350 million retained by the State for use within its Medicaid program. These $350 million is not restricted solely for use in reimbursing hospitals but is available for use in reimbursing all Medicaid providers.

2005 - During the legislative session, MHA and its member hospitals strike a deal with the Legislature to increase the revenue assessment in exchange for:

a. Maintaining 30 covered inpatient days,

b. Six covered ER visits, and

c. An immediate 2005 hospital rate update.

2005 - In exchange for maintaining service limits and a rate increase, MHA agreed to

a. An increase in the assessment levied on hospitals from $1.50 to $3.25 per day for each licensed inpatient acute care bed, and

b. An increase in the assessment on hospital gross revenue

2005 to 2006 - MHA collected approximately $2.5 million per year from its member hospitals as payment under the contract to administer the assessment and DSH/UPL calculations.

2005 - CMS informed the State that it must stop forcing public hospitals to transfer an extra $90 million that private hospitals were not required to contribute.

<u>In 2005, the last year of the disallowed plan, hospitals paid total assessments of $171 million (DSH-IGT, UPL, GRA, bed tax), which generated reimbursements and distributions of $1.1 billion.</u>

2006 - MHA lost the contract to administer the DSH/UPL Program to advise, calculate, and collect the revenue assessment.

During 2005 and 2006, DOM and MHA and the DC law firm of Covington and Burling worked together for months to develop an alternative method for filling the $90 million dollar hole

After months of discussions, in the summer of 2006, DOM decided that the best alternative was to raise the gross revenue assessment to fill the void.

In late summer of 2006, MHA and member hospitals filed a lawsuit which alleged that the assessment was unconstitutional

In 2007, when DOM told hospitals that there would be no UPL payments because the mechanism to collect the necessary assessments was arguably unconstitutional, the hospitals amended the complaint to challenge only the increase in the assessment, not the assessment itself.

In March 2008, oral arguments in the case were heard by the Court. As of this date, we have not received the court’s ruling.

SB 2013

- Fair, permanent, sustainable funding for Medicaid; best solution for short and long term
- Reformed version of a tax hospitals paid for years, at their own request
- Maximizes the Medicaid reimbursement to Mississippi hospitals
- Next year, hospitals would pay in $200 million and get back $1.25 billion in reimbursements and distributions.
- $6 back for every $1 put in
- The only compromise on the table, having been negotiated by the Mississippi Hospital Association, Division of Medicaid and the Governor’s office, then passed on an overwhelming, bipartisan vote of 41-to-7.